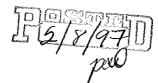
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THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 97-005-E

IN RE: DUKE POWER COMPANY



- Q. WOULD YOU PLEASE STATE FOR THE RECORD, YOUR NAME,
  ADDRESS AND OCCUPATION?
- A. My name is Jacqueline R. Cherry. My business address is 111 Doctors Circle, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Accounting Department, as an utilities accountant.
  - Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE?
- A. I received a B.S. Degree in Business

  Administration with a major in Accounting from

  Johnson C. Smith University in 1976. I was

  employed by this Commission in February 1979, and

  have participated in cases involving gas,

  electric, telephone, water and wastewater

  utilities.
  - Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize the results of the Accounting Staff's examination of Duke Power Company's Fuel Adjustment Clause operation for the period June 1996 through May 1997. The findings of the examination are contained in the Accounting Department's section of the Commission Staff Report, prepared for this proceeding.

## Q. WHAT WAS THE SCOPE OF THE EXAMINATION?

- A. The Accounting Staff traced the fuel information, as filed in the Company's required monthly filing, to the Company's books and records. The examination covered the period April 1996 through March 1997. The purpose of the examination was to determine if Duke Power Company had computed and applied the monthly Fuel Adjustment Clause in accordance with the approved clause. To accomplish this, Staff examined the components surrounding the operation of the clause.
- Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE SCOPE OF THE EXAMINATION?
- A. The examination consisted of the following:
  - 1. An Analysis of Account # 151 Fuel Stock
  - 2. Sample of Receipts to the Fuel Stock Account
    - -- Account #151

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remaining period of the existing contract--August 1995 through July 1996. Duke Power Company felt that they could purchase replacement coal at prices considerably lower than the prices pertaining to the existing Westmoreland contract. Duke Power Company stated, in its request letter to the Commission, that Duke Pover was confident the cost of replacement coal plus the proposed deferral (which is the cost of the contract buy-out) when compared to the cost which would have been incurred under the existing contract would provide a substantial net benefit to customers. The Company, therefore, requested authorization to defer the buy-out payment in Account No. 186 - Miscellaneous Deferred Debits, and to amortize the buy-out cost to Account No. 501 - Fossil Fuel for at least a twelve-month period beginning in September 1995. twelve-month time period was chosen, as stated in the Company's request letter, to cover the same time period (twelve months remained on the existing contract) that savings on replacement coal purchases would likely be realized. September 1995 began the amortization period because the Company noted that any purchases of

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replacement coal in August 1995 would not likely impact the cost of fuel burned until September 1995.

On August 22, 1995, the Commission approved Duke Power Company's request, for accounting purposes only, to reflect the buy-out costs in the aforementioned accounts with a twelve-month amortization period. The Commission noted that amortization will only be allowed to the extent that savings on replacement coal purchases are realized. The Commission also noted that the Commission reserves the right to review the economics of the Company's transaction in the Company's fuel clause adjustment proceedings. During this audit review period of the Company's fuel adjustment clause, April 1996 through March 1997, Staff reviewed the savings associated with the replacement coal purchases plus the amortization of the contract buy-out versus the Company's original coal contract costs. replacement coal purchases consisted of spot market coal and coal purchased from other coal contract suppliers. Staff reviewed the costs of the replacement coal purchases, compared those costs to the original contract costs and then

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reduced the net result of the aforementioned costs by the monthly amortization of the contract buy-out, which was \$1,918,732 per month. It should be noted that the final monthly amortization of the contract buy-out was in August 1996. The cumulative net savings as of August 31, 1996 totaled \$19.7 million.

- Q. WITH REGARD TO THE TRUE-UP OF

  (OVER)UNDER-RECOVERED FUEL COSTS, WOULD YOU PLEASE

  ELABORATE ON STAFF'S COMPUTATION?
  - Staff analyzed the cumulative under-recovery of fuel costs that the Company had incurred for the period April 1996 through March 1997 of \$13,299,613. Staff added the projected under-recovery for April 1997 of \$592,885 and the projected over-recovery for May 1997 of \$416,926 to arrive at an cumulative under-recovery of \$13,475,572. The Company's cumulative under-recovery as of March 1997 and as of May 1997 differs from Staff's. Staff's Purchased Power figures for April 1996 through August 1996, and for October 1996 through January 1997 differs from the Company's figures. Staff's figures, per Staff's report, reflect calculation adjustments made to Purchased Power Costs for the

aforementioned months, based on Staff's review of Purchased Power invoices and system operations reports. Also, the Company's corrections to Purchased Power Costs for the last fuel review period are reflected in the Purchased Power Costs for April 1996 - June 1996. Staff reflected these previous corrections in the last fuel review Staff's Exhibit G, S.C. Retail Comparison period. of Fuel Revenues and Expenses, which consists of two pages, provides details of Staff's cumulative under-recovery balance. As stated in Duke Power Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to the extent determined reasonable by the Commission. Accordingly, the Commission should consider the under-recovery of \$13,475,572 along with the anticipated fuel costs for the period June 1, 1997 to May 31, 1998 for the purpose of determining the base costs for fuel in base rates effective June 1, 1997. This under-recovery figure of \$13,475,572 was furnished to the Commission's Utilities Department.

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Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING STAFF EXHIBITS?

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A. Staff prepared exhibits from Duke Power Company's